

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 ABF-01 FS-01 OPR-02 AID-05 CIAE-00
COME-00 EB-08 FRB-03 INR-10 NSAE-00 ICA-11
TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01
NSC-05 SS-15 STR-07 CEA-01 L-03 H-01 PA-01 /102 W
-----124528 261600Z /42

R 252010Z MAY 78
FM AMCONSUL SAO PAULO
TO SECSTATE WASHDC 8538
INFO AMEMBASSY BRASILIA
AMCONSUL RIO DE JANEIRO

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E.O. 11652: N/A
TAGS: EFIN/ECON BR
SUBJ: DEPRECIATION OF OFFICIAL EXCHANGE RATE

1. EFFECTIVE MAY 25 THE CRUZEIRO/US DOLLAR RATES ARE 17.60
BUYING AND 17.70 SELLING. THE NEW RATES RESULTED FROM THE SEVENTH
MINIDEVALUATION OF THE YEAR, WHICH OCCURRED 20 DAYS AFTER THE
LAST ADJUSTMENT. THE AVERAGE INTERVAL THUS FAR IN 1978 IS 22
DAYS BUT THE AUTHORITIES HAVE VARIED THE INTERVAL FROM A
MINIMUM OF 9 DAYS TO A MAXIMUM OF 35 DAYS IN ORDER TO DISCOURAGE
SPECULATION.

2. DEPRECIATION OF THE CRUZEIRO IN RELATION TO THE U.S. DOLLAR
WAS 1.9 PERCENT SINCE THE LAST CHANGE IN EARLY MAY, CUMULATIVE
10.4 PERCENT IN 1978, AND APPROXIMATELY CUMULATIVE 27 PERCENT IN
THE LAST 12 MONTHS.

3. COMMENT: WHILE THE FREQUENCY OF EXCHANGE RATE ADJUSTMENTS
HAS INCREASED SOMEWHAT, THE PACE OF DEPRECIATION IN 1978
CONTINUES TO BE LESS THAN IN 1977 (ABOUT 13.6 PERCENT IN JAN-MAY
1977 -,\$ 32.7 PERCENT IN JUNE 1978-MAY 1977). THE AUTHORITIES
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HAVE SLOWED DOWN THE DEPRECIATION OWING TO THE REDUCED CUMULATIVE
ANNUAL RATE OF INFLATION COMPARED TO 1977. HOWEVER, EXPECTATIONS OF
SOME ACCELERATION IN THE ANNUAL RATE OF INCREASE IN PRICES TO
PERHAPS 38-40 PERCENT BY THE END OF THE YEAR SUGGESTS THAT THE
GOB MAY SPEED UP DEPRECIATION OF THE CRUZEIRO IN COMING MONTHS
SO THAT OVERALL DEVALUATION DURING 1978 COULD REACH LAST YEAR'S
LEVEL OF 30 PERCENT OR SLIGHTLY HIGHER. END COMMENT.

TELLER

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Message Attributes

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